

**CALIFORNIA ECONOMIC STRATEGY PANEL**  
**SUMMARY OF THE AUGUST 25, 2005 MEETING**

**Welcome**

John Jewell, Chief of State Library Services, provided the welcome and the history and restoration of the ornate, dome-shaped meeting room.

**Purpose of the Meeting**

Vickie Bradshaw, Chair, stated the purpose of the meeting was to:

- Learn about the Public Policy Institute of California's seminal work on business relocation and employment change in the state;
- Update the performance of the California economy; and,
- Discuss the progress of the Panel's Work Groups and what are the next steps required to complete the biennial report by December 31, 2005.

**Business Relocation and Employment Changes in California**

David Neumark, Senior Fellow and Junfu Zhang, Research Fellow from the Public Policy Institute of California (PPIC) presented preliminary findings from their study of business relocation and employment change in the state from 1992 – 2002. Key findings include:

- Relocation has generally resulted in a net loss of establishments and jobs in California. The largest loss was in 1993, when 1,364 establishments moved out but only 612 moved into California, creating a net loss of 752 establishments and 13,241 jobs. The smallest net loss, 26 establishments and 1,405 jobs, occurred in 2000.
- But these losses are negligible compared to the overall size of California's economy. 1993 and 1994 were the worst years for establishment losses. In each of those years, California had a net loss of about 750 (or 0.05 percent), out of more than 1.5 million establishments, to other states. At this rate, it would take about 20 years for California to losses just 1 percent of business establishments. The worst years for job loss from relocation were 1994 and 1997. In 1994, the net California job loss from relocation was 16,475 out of 16.4 million jobs; in 1997, it was 17.136 out of 16.5 million jobs (or about 0.1 percent in each year).
- Despite the concern about California businesses leaving the state, such moves are rare. Relocation of establishments is common, but most of these moves are

within the state. During 1992-2002, 255,838 California establishments relocated, but 246,283 (or 96.3%) of them relocated elsewhere in California. In fact, 35.4 percent of all moves during that period occurred within a city and 78.5 % stayed within County boundaries.

- When leaving the state, most California establishments go to other Western states. For example, during 1992-2002, 6,064 California business establishments went to these top six destination sites: 1,545 to Nevada, 1,095 to Arizona, 977 to Texas, 955 to Oregon, 811 to Washington and 681 to Colorado.
- Relocation has relatively little effect on employment change. In every three-year period during 1992-2002, job creation (the gross addition of jobs) came primarily from the formation of new establishments and the expansion of existing ones, and job destruction (the gross elimination of jobs) resulted primarily from establishment closures and contractions, rather than from relocation of establishments. On average, 62.4 percent of job creation came from new establishments, 36.7 percent from growth of existing establishments and only 0.9 percent from establishments moving to California. Similarly, 71.4 percent of job destruction stemmed from establishment death, 26.9 percent from contraction and only 1.6 percent from establishments leaving the state.

There were numerous questions and extensive discussion about the findings including:

- The job loss from firms located in rural communities leaving the state or the region could have a significant local impact.
- The loss of high-skill, high wage jobs, for example in manufacturing, could have a disproportionate impact.
- Is there data on how many firms did not locate or expand in California because of negative business climate issues?
- Do the findings show firm relocation by industry sector or regions?
- Is there any correlation between firms moving out with the level of education or skills required of jobs?
- PPIC's work provides new data and analyses for the Panel to use. If the data shows that birth and death of firms have a greater impact on job creation and loss, then policy priorities, especially at the regional level, might have to address this.

The findings represent an initial analysis of statewide business relocation and employment changes. The PPIC will “drill-down” into the data base to continue more in-depth analysis to address some of the comments and questions that were raised. The Panel will utilize findings from PPIC's research for future economic analyses and strategies.

### **Update the Performance of the California Economy**

Stephen Levy, Director of the Center for the Continuing Study of the California Economy presented an update of the performance of the state's economy and job growth. The economy continues moderate growth and mixed job growth. The slide presentation can be viewed at <http://www.labor.ca.gov/panel/espmtdgs.htm>.

### **Manufacturing Value Chain Workgroup Briefing**

Barry Hibbard provided a briefing on the Manufacturing Value Chain Work Group. The Work Group agreed to focus on activities including the following.

- The Work Group had extensive discussions regarding the global transformation of the manufacturing sector. Mass production jobs continue to decline, however, jobs in design and logistics have been increasing. California, especially Southern California, is positioned for future business growth.
- In coordination with the Southern California Association of Governments (SCAG) and the Los Angeles County Economic Development Corporation (LAEDC), the Work Group will participate in discussions with employers and industry association representatives in the business of manufacturing design and logistics.
- Extensive work already completed by the SCAG and LAEDC and current work of the California Business Transportation and Housing Agency and the California Environmental Protection Agency will be reviewed and coordinated with the Work Group.

There was extensive discussion regarding global changes and future opportunities and competitiveness issues in the manufacturing sector. It was suggested the Panel articulate the changes and define the manufacturing value chain to policy-makers. It was also suggested that the Panel articulate the future economic significance of export, airports, logistics and efficiencies in surface goods movement.

### **Regional Experience in Rural Economic Regions Work Group Briefing**

Assembly Member Juan Arambula provided a briefing on the Regional Experience in Rural Economic Regions Work Group. The Work Group agreed to focus on activities including the following.

- Communicate the importance of entrepreneurs as drivers of rural economies for future strategic planning and investment in economic development. The California Regional Economies Project's work for the Panel found that most of the firms and jobs in the four rural economic regions (i.e. Northern California, Northern Sacramento Valley, Central Coast and Central Sierra Regions) were established within the past five years.

- Explore the PUC broadband capacity issue and wireless communications opportunities for rural economic growth.
- Convene organizations such as the Community College Chancellor's Office, California State Association of Counties, California League of Cities and California Association for Local Economic Development and relevant state agencies for better network development and strategic planning that fosters economic development and growth.
- The Work Group also discussed and acknowledged the San Joaquin Valley Region's unique growth and competitiveness issues. Future activities would be coordinated with the recently established Governor's California Partnership for the San Joaquin Valley.

On June 24, 2005, Governor Schwarzenegger issued Executive Order S 05-05 that established the California Partnership for the San Joaquin Valley, recognizing the long-term economic, environmental and social challenges of the region. Secretary Sunne Wright McPeak is taking the Administration's lead in this effort.

Related to this effort, Secretary Vickie Bradshaw of the Labor and Workforce Development Agency, in partnership with Secretary McPeak and Secretary A.G. Kawamura of the Department of Food and Agriculture, submitted a proposal to the U.S. Department of Commerce for \$300,000 to complete a detailed analysis of the San Joaquin Valley economy. The proposal builds on the work completed by the Panel and the California Regional Economies Project. The U.S. Department of Commerce will announce a short-list of proposals for more detailed information on September 5, and announce the awardees on September 30, 2005.

### **AB 1532/Accountability Work Group**

Ed Kawahara provided a briefing on the AB 1532/Accountability Work Group. The Work Group agreed to focus on activities including the following.

- Review and summarize prior work completed by the Panel. Specifically, the report *Guiding Principals for State Economic Development Investments* completed in June, 2003 will serve as the basis of the review. This report was developed with input from a wide range of groups and provides a framework that includes guiding principles, goals, and indicators for state government investment in economic development.
- Review and identify best-practices in other states and countries. Contact and consult with experts in the field.

### **General Discussion and Next Steps**

There was general discussion regarding improving coordination with regional and statewide economic development efforts. Secretary McPeak noted that efforts are being made to establish a California Economic Development Partnership among state agencies and a regional leadership network to align local and regional efforts with state efforts.

The next Panel meeting was scheduled for September 19, 2005, 1:45 P.M. – 3:15 P.M. at the Renaissance Long Beach Hotel in Long Beach. The Panel meeting will be held in coordination with the Civic Entrepreneur Summit 2005 convened by the California Center for Regional Leadership. From 10:30 A.M. – 12:00 P.M., the Panel will participate in a Plenary Session to discuss partnerships between state leaders and regional organizations on coordinated economic strategies.